

Fiscal Note

Fiscal Services Division



HF 557 – Rural Improvement Zones (LSB1257HV)

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Fiscal Note Version – CORRECTED

Description

House File 557 relates to the establishment, operation, duration, and dissolution of Rural Improvement Zones (Iowa Code chapter **357H**).

Background

Under current law, Rural Improvement Zones are allowed in counties with a population of 20,000 or less according to the 2000 federal census. A Rural Improvement Zone must surround a lake and be in an unincorporated portion of the county. A Rural Improvement Zone is created by petition of the landowners of the lake area, with approval by the Board of Supervisors.

There are currently four Rural Improvements Zones in Iowa:

- Lake Panorama – Guthrie County
- Diamondhead Lake – Guthrie County
- Holiday Lake – Poweshiek County
- Sun Valley – Ringgold County

Rural Improvement Zones potentially impact State and local government revenue and expenditures in two direct ways. First, Iowa Code allows Rural Improvement Zones to divide property tax revenue paid on property within the Zone between the regular local governments (schools, county, etc.) and the governing body of the Zone. This type of revenue division is commonly referred to as Tax Increment Financing (TIF). In addition, the Zone governing body is allowed to impose a special property tax levy on property within the Zone. That special levy (Iowa Code section **357H.9(4)**, if imposed, must equal a rate between \$0.50 and \$2.50 per \$1,000 of taxed value. For FY 2015, only Lake Panorama utilized the special levy (\$2.50/\$1,000).

For FY 2015, the four Rural Improvement Zones had a combined assessed value of \$601.3 million and a taxed value of \$331.5 million. Of that taxed value, \$110.8 million (33.4%) was increment value. The two Zones that have existed the longest are utilizing the higher percentage as increment value. Lake Panorama utilizes 40.0% of the taxable value and Diamondhead Lake utilizes 39.9%.

Assessed and Taxed Value of Existing Rural Improvement Zones						
FY 2015 Data - Dollars in Millions						
	Base Year	Total Assessed Value	Frozen Base Value	Total Taxed Value	Increment Value	% of Taxed Value in Increment
Lake Panorama	1996	\$ 358.9	\$ 114.6	\$ 199.9	\$ 79.9	40.0%
Diamondhead Lake	1997	28.0	12.8	15.3	6.1	39.9%
Holiday Lake	2007	79.0	68.4	42.9	10.6	24.7%
Sun Valley	2007	135.4	47.7	73.4	14.2	19.3%
		\$ 601.3	\$ 243.5	\$ 331.5	\$ 110.8	33.4%

For the division of property tax revenue under TIF, the regular taxing authorities receive the property tax revenue from all property that is not included in the increment value and they also receive the proceeds of any debt levies generated from increment value. The authority that created the TIF area, in this case a Rural Improvement Zone Board of Trustees, receives all non-debt levy property tax generated from the increment value.

All property in Iowa subject to property tax pays, as part of the consolidated property tax rate, a rate of \$5.40 per thousand of taxed valuation for basic school operation (referred to as the basic levy). When revenue is divided under a TIF arrangement, revenue from the \$5.40 levy goes not to the school district, but to the authority creating the TIF area. Through operation of the School Aid Formula, this directly increases the State General Fund appropriation for school finance by \$5.40 per thousand of increment value. For FY 2015, this backfilling of TIF increment value by the State General Fund totaled \$55.5 million.

Fiscal Impact

[House File 557](#) makes several changes that may alter the fiscal impact of the existing four Rural Improvement Zones, as well as any potential Zones established in the future. The Bill:

- Changes the powers of the Board of Supervisors related to approving a petition for the establishment of a Zone from “shall” to “may.”
- Changes the federal census population requirements for Zone establishment.
- Defines a lake as a water surface area of at least 80 acres.
- Adds water quality to the definition of allowed lake improvements.
- Modifies the timeframe available for the issuance of debt certificates.
- Modifies the base value used to calculate the available TIF increment value.
- Dissolves existing Zones on June 30, 2019, or 20 years after first receiving property tax revenue through Tax Increment Financing, whichever is later.
- Permits the Board of Supervisors to approve an unlimited number of 20-year extensions to the dissolution date of the Zone.

The overall fiscal impact and timing of the Rural Improvement Zone changes contained in this Bill on local government finance and the State General Fund appropriation for school finance cannot be determined. If the changes lead to less incremental value in Rural Improvement Zones in future years than would otherwise be the case, the regular local government authorities taxing the property will receive more tax revenue and the State General Fund appropriation for school aid will be reduced.

Sources

Department of Management Property Valuation System
Legislative Services Agency analysis

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
